

ORIGINAL



0000118979

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: October 20, 2010

RE: STAFF REPORT FOR KOHL'S RANCH WATER COMPANY'S APPLICATION
FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-02886A-10-0369)

Arizona Corporation Commission
DOCKETED
OCT 21 2010



Attached is the Staff Report for Kohl's Ranch Water Company's application for an emergency rate increase. Staff recommends conditional approval of the emergency rate request.

A Procedural Order has set a hearing date on this case of November 3, 2010. Any comments or exceptions to the Staff Report should be filed with Docket Control no later than 4:00 p.m., November 1, 2010.

SMO:CSB:tdp

Originator: Crystal Brown

AZ CORP COMMISSION
DOCKET CONTROL

2010 OCT 21 A 8:34

RECEIVED

Service List for: Kohl's Ranch Water Company
Docket No. W-02886A-10-0369

Ms. Nancy J. Stone
President of the Board
c/o ILX Resorts Incorporated
2111 East Highland Avenue
Suite 200
Phoenix, Arizona 85012

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

KOHL'S RANCH WATER COMPANY

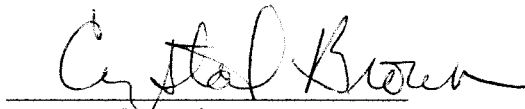
DOCKET NO. W-02886A-10-0369

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**


OCTOBER 20, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for the Kohl's Ranch Water Company, application for an emergency rate increase, Docket No. W-02886A-10-0369, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application. Katrin Stukov was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Commission's records on the Company.



Crystal Brown
Public Utility Analyst V



Katrin Stukov
Utilities Engineer



Trish Meeter
Public Utilities Consumer Analyst

EXECUTIVE SUMMARY
KOHL'S RANCH WATER COMPANY
DOCKET NO. W-02886A-10-0369

On September 2, 2010, Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). Kohl's Ranch is a Class D water utility that provides water service to approximately 124 metered customers in Gila County, Arizona. The current rates, authorized in Decision No. 42881, have been in effect since November 1972.

The Company's current rates have been in effect for approximately 40 years. The monthly customer charge for a 5/8-inch by 3/4-inch metered customer is \$5.75 and includes the first 5,000 gallons at no additional cost. For all gallons over 5,000, the cost is \$0.50 per thousand gallons. The Company indicates that it has been able to operate under its current tariff without a rate increase because its parent Company, ILX Incorporated ("ILX"), has subsidized its operations.

On March 2, 2009, ILX filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On July 23, 2010, the United States Bankruptcy court approved a Plan of Reorganization and Sale Order. Until shortly before the Sale Order date, ILX expected that the buyer of the assets of ILX would also purchase Kohl's Ranch. However, the buyer did not. The Company's application indicates that ILX will no longer be in a position to subsidize Kohl's Ranch. Consequently, Kohl's Ranch requests an emergency rate increase to allow it to generate enough revenue to pay for its operating expenses and maintain service to customers.

Staff concludes that the Company's condition satisfies criterion number three¹ discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's existing rates, which generate approximately \$10,011 (Company Schedule SSR-1, column 1), have been in effect for approximately 40 years, and are not sufficient to cover the Staff-recommended \$75,650 operating expenses.

RECOMMENDATIONS

Staff recommends:

1. Approval of the application using Staff's recommended \$26.37 monthly surcharge for 5/8-inch x 3/4-inch metered customers (residential) and \$2,200.00 monthly surcharge for six inch metered customers (the Kohl's Ranch Lodge property), as shown on Schedule CSB-3.
2. The Company file a full permanent rate case no later than April 30, 2012, using a calendar year 2011, test year.

¹ A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

3. The interim rates stay in effect until January 31, 2013, or until an Order is issued in the permanent rate case, whichever comes first. However, if the Company's permanent rate case filing is not found to be sufficient by July 31, 2012, the interim rates shall cease on July 31, 2012.
4. The interim rates be subject to refund pending the Decision resulting from the permanent rate increase case required to be filed in this proceeding.
5. The Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$ \$145,800² prior to implementing the emergency rate increase authorized in this proceeding to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency rate increase was not needed or too large. However, should the Commission choose a smaller bond, Staff recommends an additional option of posting a cashiers check for \$10.00 with the Commission as for Park Water Company in Decision No. 66389. This option is recommended as companies may be unable to obtain a bond or sight draft letter of credit for small amounts.
6. The Company be directed to file with Docket Control, within 30 days of the Decision, a revised rate schedule reflecting the emergency rate increase, as a compliance item in this docket.
7. The Company notify its customers of the emergency surcharges, and the effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.
8. Staff further recommends that the Company be required to report the information, including, but not limited to Water Use and Plant Description Data, separately for each of its individual systems by PWS, as defined by ADEQ, in future Annual Reports and rate filings.
9. Staff further recommends that an appropriately sized meter be installed on the spring source serving the Kohl's Ranch water system, and the Company be required to meter water gallons obtained from the spring source and gallons obtained from the interconnect with the Lodge system, and report this information on the Water Use Data Sheet in future Annual Reports and rate filings. This metering should be completed by January 31, 2011. The Company should coordinate when it reads the source meters each month with when it reads the customer meters so that an accurate accounting of the water pumped and the water delivered to customers is determined.

² The \$145,800 is the sum of the \$103,658.25 + \$42,141.75. The individual components are calculated as follows:
123 residential customers x \$33.71 x 25 months (Dec 2010 to Jan 2013) = \$103,658.25
1 commercial customer (Lodge) x \$1,685.67 x 25 months (Dec 2010 to Jan 2013) = \$42,141.75

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
BACKGROUND.....	1
CONSUMER SERVICES.....	1
ENGINEERING ANALYSIS.....	1
COMPLIANCE	1
CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF.....	2
SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF	2
STAFF'S ANALYSIS.....	2
CONCLUSION.....	3
STAFF'S RECOMMENDATIONS	3

SCHEDULES

INCOME STATEMENT	SCHEDULE CSB-1
CALCULATION OF ANNUAL SURCHARGE REVENUE	SCHEDULE CSB-2

ATTACHMENT

ENGINEERING MEMORANDUM.....	1
-----------------------------	---

INTRODUCTION

On September 2, 2010, Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission").

BACKGROUND

Kohl's Ranch is a Class D water utility that provides water service to approximately 124 metered customers in Gila County, Arizona.

The residential customers and the Kohl's Ranch Lodge property ("Lodge") are served by two water systems: the residential customers are served primarily by a naturally occurring spring system and the Lodge is served by a well system. The current rates, authorized in Decision No. 42881, have been in effect since November 1972.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period of January 1, 2007, through October 13, 2010, and found no complaints and one opinion opposed to this emergency rate application.

ENGINEERING ANALYSIS

A complete discussion of Staff's technical findings and recommendations and a description of the water system are provided in the attached Engineering Memorandum.

The Company's two water systems (through the use of the emergency interconnect) have adequate capacity to serve the Company's customers.

The Company's reported annual water testing expense totaling \$2,805 appears to be reasonable.

The Company is in compliance with ADEQ and ADWR regulations.

COMPLIANCE

A check of the compliance database indicates that there are currently no delinquencies for Kohl's Ranch.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates³ include:

1. A sudden change that causes hardship to a company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

The Company's current rates have been in effect for approximately 40 years. The monthly customer charge for a 5/8-inch by 3/4-inch metered customer is \$5.75 and includes the first 5,000 gallons at no additional cost. For all gallons over 5,000, the cost is \$0.50 per thousand gallons. The Company indicates that it has been able to operate under its current tariff without a rate increase because its parent Company, ILX Incorporated ("ILX"), has subsidized its operations.

On March 2, 2009, ILX filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On July 23, 2010, the United States Bankruptcy court approved a Plan of Reorganization and Sale Order. Until shortly before the Sale Order date, ILX expected that the buyer of the assets of ILX would also purchase Kohl's Ranch. However, the buyer did not. The Company's application indicates that ILX will no longer be in a position to subsidize Kohl's Ranch. Consequently, Kohl's Ranch requests an emergency rate increase to allow it to generate enough revenue to pay for its operating expenses and maintain service to customers.

STAFF'S ANALYSIS

Staff reviewed the emergency rate application that contained an unaudited 2009 income statement including pro forma adjustments and discussed the matter with Ms. Stone, the Company's president, and Ms. Rowell, the Company's consultant. The Company's Schedule SSR-1, column 5 shows total proposed revenue of \$89,499 and total operating expenses of \$87,179, resulting in operating income of \$2,320. The Company proposes a \$36.00 monthly surcharge for residential customers and a \$2,160 monthly surcharge for the Lodge.

Based on the results of Staff's review, Staff agrees with the Company that an emergency rate increase is needed. However, Staff does not agree with the Company's proposed level of operating revenues, expenses, operating income, and resulting surcharges. Staff decreased total

³ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz. 531 (CT. App. 1978) and in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588 (2001).

2009 operating expenses by \$11,529, from \$87,179 to \$75,650 as shown and explained on Schedule CSB-1 pages 1 through 2. Staff recommends emergency rates that would produce total operating revenue of \$75,650 and no operating income as shown on Schedule CSB-1, page 1, column E.

Staff reviewed the Company proposed \$36.00 monthly surcharge for 5/8-inch x 3/4-inch metered customers (residential) and \$2,160.00 monthly surcharge for six-inch metered customers (Lodge) and concluded that the surcharges appeared reasonable. However, in order to generate Staff's recommended revenue and to mitigate the increase to the residential customers, Staff decreased the \$36.00 residential surcharge by \$9.63 to \$26.37 and increased the \$2,160 Lodge surcharge by \$40 to \$2,200. Staff's recommended monthly surcharges of \$26.37 for 5/8-inch x 3/4-inch metered customers (residential) and \$2,200.00 for six-inch metered customers (Lodge) are shown on Schedule CSB-2.

Staff's recommended operating income of \$0 reflects that the revenue increase was set using a break-even methodology. Staff's recommended revenue increase is sufficient to allow the Company to pay for all of its operations and maintenance costs.

CONCLUSION

Staff concludes that the Company's condition satisfies criterion number three⁴ discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's existing rates, which generate approximately \$10,011 (Company Schedule SSR-1, column 1), have been in effect for approximately 40 years, and are not sufficient to cover the Staff-recommended \$75,651 operating expenses.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the application using Staff's recommended \$26.37 monthly surcharge for 5/8-inch x 3/4-inch metered customers (residential) and \$2,200.00 monthly surcharge for six-inch metered customers (the Kohl's Ranch Lodge property) as shown on Schedule CSB-3.
2. The Company files a full permanent rate case no later than April 30, 2012, using a calendar year 2011, test year.
3. The interim rates stay in effect until December 31, 2012, or until an Order is issued in the permanent rate case, whichever comes first. However, if the Company's permanent rate case filing is not found to be sufficient by July 31, 2012, the interim rates shall cease on July 31, 2012.

⁴ A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

4. The interim rates be subject to refund pending the Decision resulting from the permanent rate increase case required to be filed in this proceeding.
5. The Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$ \$145,800⁵ prior to implementing the emergency rate increase authorized in this proceeding to ensure that there is sufficient money available to refund customers if the Commission determines in the permanent rate case that the emergency rate increase was not needed or too large. However, should the Commission choose a smaller bond, Staff recommends an additional option of posting a cashiers check for \$10.00 with the Commission as for Park Water Company in Decision No. 66389. This option is recommended as companies may be unable to obtain a bond or sight draft letter of credit for small amounts.
6. The Company be directed to file with Docket Control, within 30 days of the Decision, a revised rate schedule reflecting the emergency rate increase, as a compliance item in this docket.
7. The Company notify its customers of the emergency surcharges, and the effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.
8. Staff further recommends that the Company be required to report the information, including, but not limited to Water Use and Plant Description Data, separately for each of its individual systems by PWS, as defined by ADEQ, in future Annual Reports and rate filings.
9. Staff further recommends that an appropriately sized meter be installed on the spring source serving the Kohl's Ranch water system, and the Company be required to meter water gallons obtained from the spring source and gallons obtained from the interconnect with the Lodge system, and report this information on the Water Use Data Sheet in future Annual Reports and rate filings. This metering should be completed by January 31, 2011. The Company should coordinate when it reads the source meters each month with when it reads the customer meters so that an accurate accounting of the water pumped and the water delivered to customers is determined.

⁵ The \$145,800 is the sum of the \$103,658.25 + \$42,141.75. The individual components are calculated as follows:
123 residential customers x \$33.71 x 25 months (Dec 2010 to Jan 2013) = \$103,658.25
1 commercial customer (Lodge) x \$1,685.67 x 25 months (Dec 2010 to Jan 2013) = \$42,141.75

INCOME STATEMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED 12/31/2009	[B] STAFF ADJUSTMENTS REF	[C] STAFF AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 89,499	\$ -	\$ 89,499	\$ (13,849)	\$ 75,650
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	-	-	-	-	-
4	Total Revenues	<u>\$ 89,499</u>	<u>\$ -</u>	<u>\$ 89,499</u>	<u>\$ (13,849)</u>	<u>\$ 75,650</u>
EXPENSES:						
7	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-	-	-
9	Purchased Power	2,020	(1,422) A	598	-	598
11	Chemicals	-	-	-	-	-
12	Repairs and Maintenance	7,315	(996) B	6,319	-	6,319
13	Office Supplies and Expense	1,778	-	1,778	-	1,778
14	Outside Services	65,000	(6,000) C	59,000	-	59,000
16	Water Testing	2,805	-	2,805	-	2,805
18	Rents	-	-	-	-	-
19	Transportation Expenses	-	-	-	-	-
20	Insurance - General Liability	2,810	-	2,810	-	2,810
21	Insurance - Health and Life	-	-	-	-	-
23	Reg. Comm. Exp. - Rate Case	2,500	(2,500) D	-	-	-
24	Miscellaneous Expense	129	-	129	-	129
26	Depreciation Expense	1,810	-	1,810	-	1,810
27	Taxes Other Than Income	-	-	-	-	-
28	Property Taxes	402	-	402	-	402
29	Income Taxes	611	(611) E	-	-	-
31	Rounding	(1)	-	(1)	-	(1)
32	Total Operating Expenses	<u>\$ 87,179</u>	<u>\$ (11,529)</u>	<u>\$ 75,650</u>	<u>\$ -</u>	<u>\$ 75,650</u>
34	Operating Income (Loss)	<u>\$ 2,320</u>	<u>\$ 11,529</u>	<u>\$ 13,849</u>	<u>\$ (13,849)</u>	<u>\$ -</u>

References:

Column (A): Company Schedule SSR-1
Column (B): Schedule CSB-1, page 2
Column (C): Column (A) + Column (B)
Column (D): Column (E) + Column (C)
Column (E): Column (C) + Column (D)

STAFF ADJUSTMENTS

A - PURCHASED POWER EXPENSE - Per Company \$ 2,020
Per Staff 598 (\$1,422)

The Company's calculation for purchased pumping power costs included gallons for both the spring system and the well system. However, because the spring system uses gravity flow and does not utilize a pump, Staff removed the gallons related to the spring system (i.e., 3,555) as follows:

	Per Company	Adjustment	Per Staff
Spring System (Residential) - Gallons in '000's	3,555	(3,555)	0
Well System (Lodge) - Gallons in '000's	1,495	0	1,495
Total Annual Gallons	5,050	(3,555)	1,495
Estimated Purchased Pwr cost per 1,000 gals	\$ 0.40		\$ 0.40
Purchased Power Expense	\$ 2,020.00	(1,422)	\$ 598.00

B - MATERIAL AND SUPPLIES - Per Company \$ 7,315
Per Staff 6,319 (\$996)

The Company added \$996 in estimated repair and maintenance costs (Schedule SSR-2, Adjustment 8) in addition to the \$6,319 in actual repair and maintenance expense. Staff removed \$996 to reflect only actual repair and maintenance costs as follows:

	Per Company	Adjustment	Per Staff
Actual repair and maintenance costs	6,319	0	6,319
Estimated repair and maint. costs	996	(996)	0
Total Repair and Maint Expense	7,315	(996)	6,319

C - OUTSIDE SERVICES - Per Company \$ 65,000
Per Staff 59,000 (\$6,000)

Per discussion with the Company's consultant, Staff determined that \$6,000 in legal costs were related to the bankruptcy. Staff removed this cost as Staff believes the amount has been paid and is not an on-going expense.

	Per Company	Adjustment	Per Staff
Operator	21,000	0	21,000
Billing, Accounting, Management	36,000	0	36,000
Annual reports, Tax return preparation	2,000	0	2,000
Legal expenses	6,000	(6,000)	0
	65,000	(6,000)	59,000

D - REGULATORY COMMISSION EXPENSE, RATE CASE - Per Company \$ 2,500
Per Staff 0 (\$2,500)

Staff removed rate case expense as the expense is not essential and is not on-going in the short-term. Further, a normalized level of rate case expense will be provided for in the Company's permanent rate case.

E - INCOME TAXES - Per Company \$ 611
Per Staff 0 (\$611)

To reflect Staff's income tax calculation as shown on CSB-1, page 3.

Kohl's Ranch Water Company
Docket No. W-02886A-10-0369
Emergency Rates

Schedule CSB-2

Line
No.

1 Annual Revenue Increase
2 \$ 75,650 Staff recommended total revenue
3 \$(10,011) Actual total revenue
4 \$ 65,639 Staff recommended increase in revenue

5
6
7

8 Calculation of Annual Surcharge Revenue

	Number of Customers		Monthly Surcharge		Number of Months		Annual Surcharge Revenue
11	5/8" x 3/4" Meter (Residential)	124	x	\$ 26.37	x	12	= \$ 39,239
12	6" Meter (Lodge)	1	x	\$ 2,200.00	x	12	= \$ 26,400
13	Total Annual Surcharge Revenue						\$ 65,639

MEMORANDUM

DATE: September 30, 2010

TO: Crystal Brown
Public Utilities Analyst V

FROM: Katrin Stukov *ICS*
Utilities Engineer

RE: Kohl's Ranch Water Company Emergency Rate Increase Application
Docket No. W-02886A-10-0369

Introduction

On September 2, 2010, Kohl's Ranch Water Company ("Company" or "Utility") filed an application with the Arizona Corporation Commission ("ACC") requesting an interim emergency rate increase.

Based on the information obtained from an Arizona Department of Environmental Quality ("ADEQ") Inspection Reports ("Report"), dated September 2, 2010, the Company operates two water systems (the Kohl's Ranch water system and the Lodge water system)¹ east of Payson, in Gila County. The Kohl's Ranch water system provides water service to approximately 124 homes in the Kohl's Tonto Creek Subdivision. The Lodge water system serves the Kohl's Ranch Lodge property ("Resort"), which consists of a hotel, restaurant and cabins. The two water systems have an emergency interconnection.

According to the application, in 1995, ILX Resorts Incorporated ("ILX") acquired both the Utility and the Resort, and ILX has been subsidizing the Utility with cash, labor, parts, supplies, and services. ILX has recently received U.S. Bankruptcy Court approval of a Plan of Reorganization and Sale Order providing for the sale of substantially of all ILX's assets, including the Resort, but excluding the Utility. The Buyer of the ILX assets agreed to purchase the Resort, but not the Utility. According to the Company, an emergency now exists as ILX will no longer be in a position to subsidize the Utility operations and the Utility will now have to operate as a stand-alone entity.

¹ The Company does not separate Water Plant Description and Water Use Data by system in its Annual Reports.

Existing Water Systems

1. Kohl's Ranch Water System

Based on the information obtained from an ADEQ Report and the Company's responses to Staff's data requests, the Kohl's Ranch system consists of the naturally occurring spring, one 4-tank filtration system, one chlorinator, one booster pump and a distribution system serving approximately 124 connections (mostly secondary part-time residences). The system does not have a storage tank. The Kohl's Ranch system supplements its water supply by obtaining water from the Lodge system (through an emergency interconnect) during peak summer demand periods, or as needed. The Company does not meter/report water gallons obtained from the spring; therefore, Staff cannot determine the water supply capacity. However, according to the system's certified operator, the Kohl's Ranch water system, through the use of the emergency interconnect, has adequate capacity to serve its customers.

2. The Lodge Water system

According to the Company, the Lodge system consists of one-37 gallon per minute well², one 200,000 gallon storage tank, one 5,000 gallon pressure tanks, one chlorinator and a distribution system serving the Resort.

Using the Company's responses to Staff data requests, the Company reported the peak use month as August with 160,900 gallons sold. Based on this data, the Lodge water system has adequate production and storage capacity to serve its customers.

Water Testing Expense

According to the application, the Company's 2009 water testing expense is \$2,805. This amount appears to be reasonable.

ADEQ Compliance Status

Based on ADEQ Reports, ADEQ reported no deficiencies and has determined that the Kohl's Ranch system, ADEQ Public Water System ("PWS") Identification No. 04-013, and the Lodge system, ADEQ PWS Identification No. 04-089, are currently delivering water that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.

ACC Compliance Status

A check of the Utilities Division compliance database indicated that there are currently no delinquencies for the Company³.

² Installed in June, 1984 (per ADEQ Report)

ADWR Compliance Status

The Company is not located in any ADWR Active Management Area. The ADWR has determined that the Company's two water systems are currently in compliance with ADWR requirements governing water providers and/or community water systems.⁴

Conclusions

The Company's two water systems (through the use of the emergency interconnect) have adequate capacity to serve the Company's customers.

The Company's reported annual water testing expense totaling \$2,805 appears to be reasonable.

The Company is in compliance with ADEQ and ADWR regulations.

Recommendations

Staff recommends that the Company be required to report the information, including, but not limited to Water Use and Plant Description Data, separately for each of its individual systems by PWS, as defined by ADEQ, in future Annual Reports and rate filings.

Staff recommends that an appropriately sized meter be installed on the spring source serving the Kohl's Ranch water system, and the Company be required to meter water gallons obtained from the spring source and gallons obtained from the interconnect with the Lodge system, and report this information on the Water Use Data Sheet in future Annual Reports and rate filings. This metering should be completed by January 31, 2011. The Company should coordinate when it reads the source meters each month with when it reads the customer meters so that an accurate accounting of the water pumped and the water delivered to customers is determined.

³ Per compliance check dated September 17, 2010.

⁴ Per ADWR Compliance Status Report dated September 20, 2010.